

# Social Norms: A Wasteful Risk-Coping Strategy: Evidence from Kyrgyzstan

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- Another view - even in the absence of market frictions the poor are subject to different constraints.
  - Under extreme poverty subsistence considerations impede saving. Individuals are locked in a bad equilibrium (Ghatak, 2015).

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- Social norms requiring families to spend on activities which do not contribute to their well-being constitutes constraints that the poor in many developing countries are facing.
- One important example of conspicuous consumption is ceremonial expenditure. For example, weddings, funerals, etc.

# Literature

- Poor people in the developing world spend large amounts on weddings, dowries, and christenings (Banerjee and Duflo, 2007; Brown et al., 2005).
- Spending on ceremonies is unproductive as it channels scarce resources of a household away from investment and hence families are locked in poverty traps (Moav and Neeman, 2008, 2012; Kaus, 2013).
- Due to social pressures and concerns for status, the poor are forced to cut basic necessities to afford gifts at social events (Chen and Zhang, 2012).
- Lavish spending on weddings is not uncommon in poor villages with poor households trying to imitate richer families (Block et al., 2004).

# Literature

- Ceremonial spending as a mechanism to maintain social networks.
- Social networks as informal insurance (Udry 1994). Members of the social networks cover part of expenses (funerals, weddings).
- Expenses on ceremonies are twice as large as the monetary value of gifts received (Chen et al., 2011).
- Ceremonial spending may be evolutionary (Bisin and Verdier, 1998; Heffetz and Frank, 2011).
- Ceremonial spending may be strategic (Moav and Neeman, 2012).

# Public policy

- Policies to tackle poverty can be classified into three categories:
- Access to markets. It's about market frictions (say, imperfect financial markets);
- Public goods provision. For example, building roads, schools, etc.
- Providing help: unconditional cash transfers, conditional cash transfers and in-kind transfers.

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- The violation of the regulation is penalised (roughly 580 USD).



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- In Kazakhstan, there was an initiative to pass a law on funerals.
- This would regulate burials to prevent excessive spending.

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- Effect on health. Household income is diverted from food - pregnant women are affected with long-lasting health effects on children (Chen and Zhang, 2017).
- Effect on education. Spending on festivities diverts household income - children have to work to make up for income loss (ILO, 2005).

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- Yet wasteful: ceremonial spending reduces consumption and increases the likelihood of missing school.

# Descriptive statistics

Table 1: Ceremonial Expenditure, Income and Remittances, Year averages

		Year				
		2010	2011	2012	2013	2016
Rural	real ceremonial spending, Som	8,769	6,558	8,254	12,618	5,756
	real income (net of transfers), Som	131,414	129,606	144,182	156,652	231,070
	real ceremonial spending, USD*	191	142	176	260	82
	real income (net of transfers), USD*	2,858	2,809	3,068	3,234	3,306
	share of ceremonial spending in income	11.3%	7.8%	8.6%	13.0%	7.6%
	real remittances, Som	6,332	6,914	7,458	13,841	4,224
	real remittances, USD*	138	125	126	209	38
Urban	real ceremonial spending, Som	9,150	5,683	6,572	7,616	4,310
	real income (net of transfers), Som	132,842	138,349	163,982	181,229	209,655
	real ceremonial spending, USD*	199	123	140	157	62
	real income (net of transfers), USD*	2,889	2,998	3,489	3,741	2,999
	share of ceremonial spending in income	10.0%	4.7%	4.9%	6.0%	6.7%
	real remittances, Som	4,781	3,228	4,244	9,128	1,032
	real remittances, USD*	104	50	72	130	10

# Data

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- Individual Module: Information on social networks.

# Empirical Strategy

$$Y_i = \beta_0 + \beta_1 CS_i + \beta_2 X_i + \epsilon_i.$$

$$\Pr(D_i = 1) = \Phi(\alpha_0 + \alpha_1 CS_i + \alpha_2 X_i).$$

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- First-stage F-statistic about 30. Instrument not weak.

# Results

Table: Ceremonial spending and consumption

	food	meat	bread	dairy	alc&tob
cerem. spend.	-0.148*	0.038	-0.946***	-0.777***	0.377*
income	0.308***	0.135**	0.987***	0.825***	0.058
city	0.249***	0.222***	0.658***	0.677***	0.005
female	0.249***	0.222***	0.658***	0.677***	0.005
Russian	0.026	-0.133	-0.318	-0.100	0.753***

# Results

Table: Ceremonial spending and school absence

	missed due to work	missed due to illness	weeks missed due to work	weeks missed due to illness
cerem. sp.	0.587***	0.869***	0.189	0.904***
income	-0.370***	-0.423***	-0.172**	-0.480***
city	-0.326***	0.291***	-0.121***	0.293***

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- Deviating from the norm - weaken links to social network.
- Social network - financial and non-financial benefits.



# Social networks

- LiK individual survey
- “If you would suddenly need 2,000 Som how many people could lend you this amount?”
- 4 possible categories: 1) no-one 2) very few (1-2 people) 3) several (3-6 people) 4) many (more than 6).

# Social networks

Table: Ceremonial spending and social network

	Network size	Income st. dev.	Log income st. dev.
cerem. spend.	0.740***	-18.156**	-0.171**
city	0.014	-5.505***	-0.071***

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- Ceremonial spending leads to increased likelihood of missing school for children.
- Ceremonial spending - mechanism for maintaining social network.
- Higher ceremonial spending - larger social network.
- Social networks play insurance role, provide a safety net.
- Higher ceremonial spending - lower income variation.